ISC West, Las Vegas

# Security Distributing & Marketing®

1992 Forecast: Recession Ends?

Multi-tenant Fire Protection

Access and Fire For Hotel Safety

New Column: A Dealer's View

A CAHNERS PUBLICATION

JANUARY 1992

# Security Distributing & Marketing®

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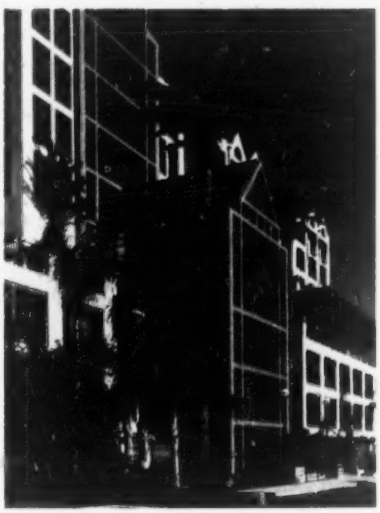

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The expertise of technicians like George Laegler at ABC Security, Northbrook, IL, has helped the company successfully diversify by adding access control to its locks and alarms services. See page 66.

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*The economic storms of an up and down recession should clear by year's end.*

*By Gary L. Parr*
*Editor,* SDM

Predicting the economic future of the alarm industry these days is almost as difficult as predicting the weather. In this recession, no two parts of the country have been affected in the same way and there is no clear pattern for recovery. Further complicating the picture is the significant influence that world events have on the U.S. economy. This will be particularly true in 1992, as the USSR dissolves and a new Russian government emerges.

The results of the 1992 version of the *Security Distributing & Marketing* Annual Forecast Survey, show dealer/installers expecting a quick end to the recession. In fact, six in 10 respondents to the survey are optimistic about the industry's future.

**Low-pressure growth**

Last year, dealers responding to *SDM*'s Industry Forecast called for an almost 11% growth in industry revenues. Then the nation's economy plunged into a recession, the depth of which has yet to be realized. Consequently, sales flattened and the alarm industry realized a meager 5% growth for the year.

The overall 5% increase in annual revenues, for the most part, arises from recurring revenues. Typical annual growth for monitoring, maintenance, and leasing revenue is 6% (probably a high figure for 1991). New growth in 1991 was just sufficient to compensate for attrition—accounts terminated during the toughest economy in 10 years.

That's not all bad, though. There are many industries—building and construction, automotive, and computer, to name three—to which flat revenues would be a bonanza.

"Sales were flat in 1991," says Steve Firestone, director of marketing, Commonwealth Security Systems, Lancaster, PA.

Commonwealth is one of the founding companies of the Security Network of America, a loosely-tied group of 22 independent companies from across the country. "At the last Security Network meeting, the member-companies indicated that sales had been flat in 1991 and many expect sales to be flat in 1992. There are pockets that say they are out of the recession, but cancellations are

up all across the country," adds Firestone.

What about growth next year? "That's blind hope," says a pessimistic Firestone. "It's not likely to happen [in 1992]. People have little confidence in the economy."

But the dealers who responded to the Forecast Survey don't necessarily agree. They are indicating a 9% increase in industry revenues for 1992, which would pump annual industry income up to $10.8 billion.

There's much support for this projected growth rate. Robert Moe, ProFinance Associates Inc., Rutherford, NJ, thinks a 9% growth in 1992 is quite reasonable. "There's a lot of pent-up energy that will have to be released sooner or later. It most likely will happen in the second half of next year."

Charlie Schoen, president of Westco Security Systems, Minneapolis, sees 9% as a "nice target to shoot at. This is an election year and the second six months should be very robust."

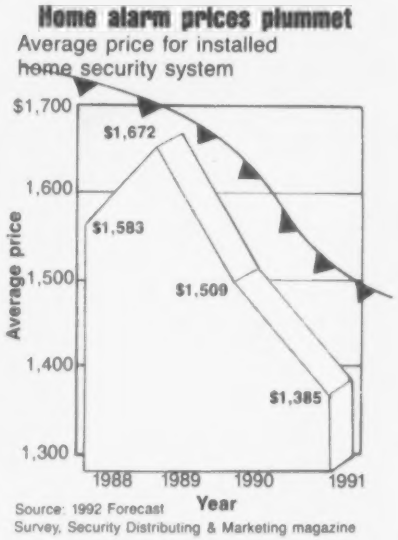
National distributors have a unique advantage in projecting market growth because they base their business plans on sales to dealers in every sector of the economy. Ken Moyes, president of national distributor Arius Inc., Framingham, MA, is more optimistic than most dealers. "We're projecting growth in excess of 15% in 1992."

### Stormy northeast

Dealers in the Northeast spent 1991 battling a recessionary storm that, for most, still hasn't gone away. Only 50% of the dealers in the Northeast reported higher revenues in 1991. Approximately 70% of the dealers in the rest of the country could make the same claim. This is the first time such a dramatic difference in one region of the country has occurred in the 11-year history of the Forecast Survey.

"We have been moving forward slowly, even though economic times seem to be negative," says Jim Baker, commercial sales manager, Sentry Protective Systems, East Boston, MA. "Although business has been either up or down, depending on the month, we try to be flexible in trying new programs and marketing ideas," he adds.

Carl Spiegel, president, ASP Security Systems, Waterford, CT, identifies another aspect of doing business in New England these days: "There is a much greater need to police our accounts so we get paid. If we don't, we find ourselves in unsolicited partnerships with our customers."




***Influenced by mass-marketing efforts, average home alarm prices dropped significantly for the second year.***

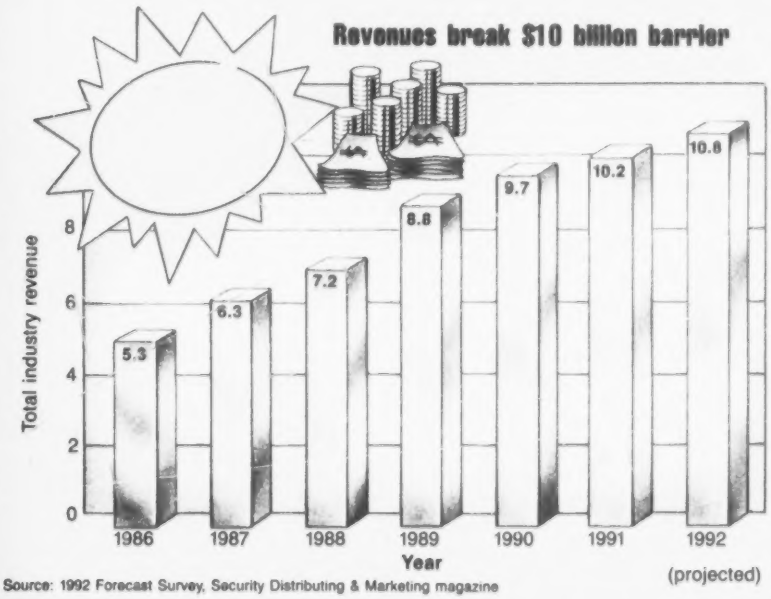
The economy continues to weigh heavy on the minds of dealers in the Northeast, where 45% of the survey respondents indicated that economic conditions are the one factor that will have the most impact on sales in 1992. Only three in 10 dealers in the South pointed to the economy as having such an impact on their business plans.

### Better weather ahead

What about the future? Despite the recession, dealers are optimistic. The statistic that gives the strongest indication of this optimism is the expectation that annual revenues will increase.

In 1991, 65% of the dealers responding to the survey reported an increase in annual revenues for the year. This figure is the lowest since 1983, when 63% reported a revenue increase.

That's going to change in 1992. Among survey respondents, 74% expect to see increases in revenues next year. Two factors are driving this optimism—persistent indications that the economy is on the upswing and the almost universal expectation that an election year will bring a significant improvement in the economy. The political stirrings that usually lead to election-year economic recovery are already starting to appear in the newspapers.




***While new sales in 1991 were flat, total industry revenue increased a meager 5%, cracking the $10 billion mark. If the economy cooperates, industry revenues should increase 9% in 1992, to almost $11 billion.***

*The recession has pushed dealers to focus on business management to protect profit margins.*

Another reason for optimism in the coming year is that apparently the industry's dealers anticipate running more efficient operations. When asked what three factors will present the biggest challenges in the next five years, 67% of the respondents listed controlling costs as their top challenge. Protecting profit margins is a top priority for 67% of respondents as well. Selling more alarm systems was the third factor (63%), which is no surprise, since increasing sales is a major challenge every year.

These numbers can be interpreted to indicate a growing sophistication in business operating practices in the industry. Fewer dealers define a good month as one in which they took in more money than they paid out. More dealers are scrutinizing every aspect of the business operation, from equipment costs, to installation time, to service calls and monitoring fees.

"The recession has been a crash course in business management," says Carl Spiegel. "People have become much more efficient by necessity," he adds.

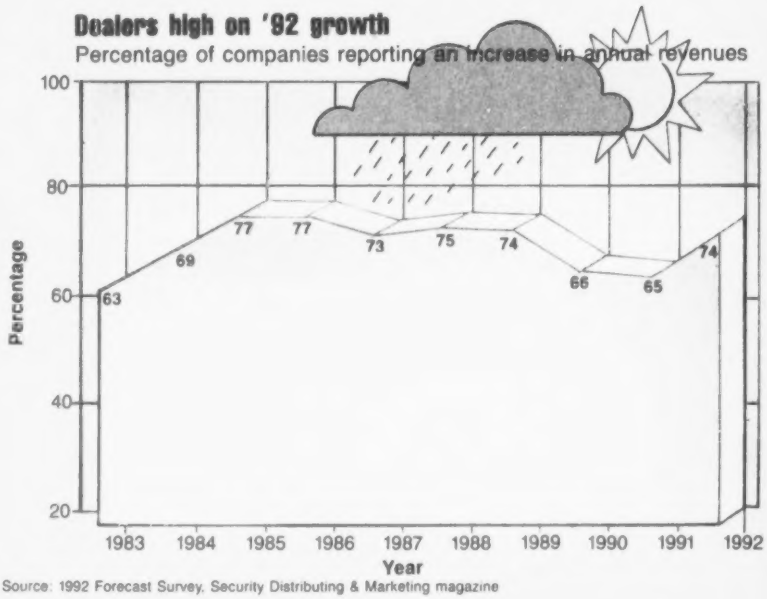
If ever there was a time that dealers were faced with stiff competition from several fronts, it is now. Of the Forecast Survey respondents, 44% listed large or national alarm companies as providing their stiffest competition over the next five years, a figure that matches the 1991 survey results. This was followed by small alarm companies (21%) and, surprisingly, the third ranking source of competition was the Regional Bell Operating Companies (18%).

Ranking the RBOCs third is surprising because none has made a direct and unequivocal entry into security sales, installation, or monitoring in the U.S. The potential of those seven conglomerates has captured the attention of many dealers and could set off a series of storms that the electronic security industry will have a difficult time weathering.

"The RBOCs will be a big factor in the 1992 business picture," says Baker of Sentry. The final step in this matter probably will be taken in the first half of 1992 when Congress decides whether to bar the RBOCs from doing business in the alarm industry.

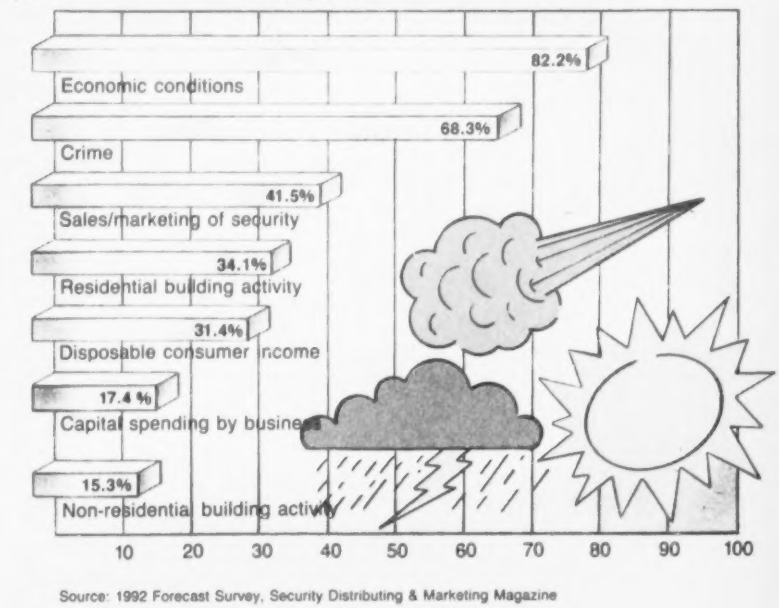
### High home pressure

The residential security market continues to offer an attractive climate for sales. Some 65% of the survey respondents listed residential security as the market segment that provided them with the most revenue growth in 1991.




Source: 1992 Forecast Survey, Security Distributing & Marketing magazine

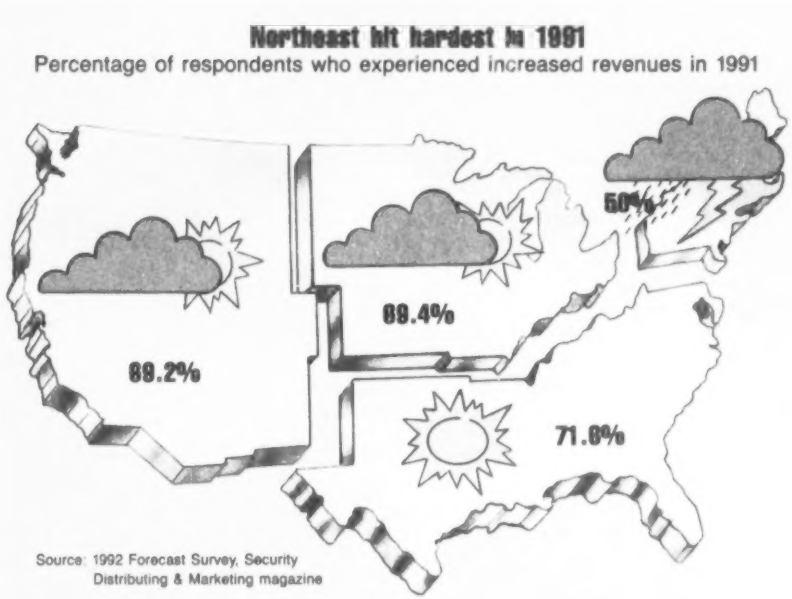
***The percentage of companies that experienced increased annual revenues dropped to an eight-year low in 1991. This number may rebound to 1989 levels, if the expected economic recovery occurs.***




Source: 1992 Forecast Survey, Security Distributing & Marketing Magazine

***Economic conditions will play a major role in determining future sales. Four of 10 dealers also see an important role for sales and marketing.***

*CCTV and access control systems continue to show strong growth, despite the economy.*




***Northeastern dealers have been affected most by the recession. Still, 50% were able to report increased revenues in 1991, a significant 20 points below other regions of the country.***

This was broken down into a high-end segment (39%) and a low-end segment (26%). Commercial business, nevertheless, accounted for the growth of 26% of dealers surveyed.

Dealers are gaining in residential security, while prices, on the average, are dropping. The 1991 average price of $1,385, is the lowest in five years. In fact, the average price has dropped $287 since the price reached its high point of $1,672 in 1989.

"There is unbelievable price pressure in the residential market," says Sentry's Baker. "Even though the mass marketers play an important role, they often overflow into the custom residential market, which in return hurts us all. If we all pull together and sell quality and service, we will all benefit, especially against the RBOCs and mass marketers."

But don't discount the mass market installers. In some parts of the country they are starting to get significant penetration and are generating profits, something they haven't done in past years.

It remains to be seen whether the 1991 average price of $1,385 will be a low-water mark and or if the price will start to inch back up in 1992, as all dealers try to realize more profits from their biggest growth market.

In the past year, dealers have also been the beneficiaries of considerable activity in the access control and CCTV areas. According to the survey respondents, this trend will continue in a strong way in 1992.

### Clearing for access, CCTV

Approximately 61% of the industry's dealers surveyed use access control. Ninety-three percent of those dealers expect their purchases of access control systems to increase in 1992. One in four are looking at buying 10% or more over last year's purchases. Access control also is a popular area for dealers looking to diversify.

Figures for CCTV growth are equally strong. CCTV systems are offered by 81% of dealers surveyed and 95% of those dealers expect to increase their purchases of CCTV equipment in 1992. More than a third expect their purchases to increase by 10% or more.

Burglar and fire alarm systems continue to show the kind of potential that makes electronic security a growth industry. Increased burglar alarm purchases are foreseen by 97% of the dealers, and 55% expect to increase their purchases by more than 10%. Fire protection systems, offered by 95% of the dealers surveyed, will be purchased in increased amounts by 97% of those dealers. Almost half of the dealers are expecting to increase their purchases by more than 10%.

These projections, while optimistic, indicate a stronger year for 1992 and definitely show dealers' confidence in the futures of their companies.

Lee Jones, president of Support Services Group, San Clemente, CA, offers a sunny forecast, with qualifications. "If you have capital and marketing expertise, this is the best time to be in the alarm industry."

Along with bright prospects come warnings of changing conditions. Dealers across the country rank economic conditions (82.2%) and crime (68.3%) as two of the top three factors that will affect system sales in the next five years.

Four in 10 dealers surveyed point to sales/marketing of security systems as having a big influence on their growth. The results are significant because more dealers are taking an active approach to selling their services. High-profile marketing by national companies has demonstrated the importance of aggressive marketing and promotion.

Aggressive marketing and sound business practices will make the difference between success and failure in a year that will be filled with plenty of economic storms, but should end with clear skies and warm temperatures. **SDM**

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HIGH **442** MED **443** LOW **444**

### How the Forecast Survey works

Results from *Security Distributing & Marketing's* 1992 Forecast Survey are based on responses to a written questionnaire mailed to a random sample of 1,000 subscribers. All respondents are owners, executives, or managers of electronic security installing companies in the United States. Questionnaires were mailed on October 3, 1991 and 291 replies were received by October 28 for a response rate of 29%.

*SDM* thanks all of those who participated in this ongoing research.

# SDM® Update

***Statistics on market conditions and trends***

## Dealers: Regional Bells not welcome

*By Laura E. Stepanek, Senior Editor,* SDM

It's unfair competition, say most alarm dealers about a recent ruling that gave the Regional Bell Operating Companies clearance to compete in the security industry. (See "Bells freed to pursue info services," Nov. 1991, p. 72.) By Dec. 1, several of the Bell companies had publicly declared an intent to enter the home automation market and other markets that would "benefit the public."

Dealers' reactions to these events range from angry and frustrated to curious and expectant. However, in a survey of 100 dealers, conducted by *SDM*, most feel threatened. Here's how some dealers expect the RBOCs to compete:

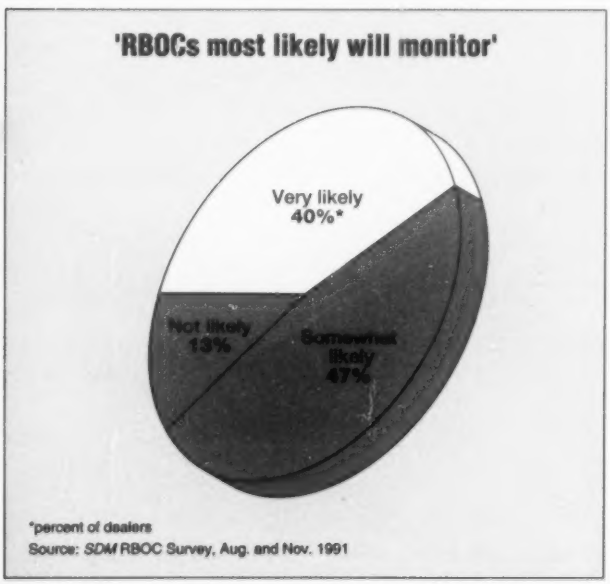
- "When a telephone goes in, [the Bell companies] know about it. They may have lousy service, even lousy prices, but they have the sales force and the contacts to make a sale even before I could know about it," said Larry Wilson, owner of Advanced Alarm Systems, Jonesborough, TN.
- "My biggest concern is [the RBOCs] buying their way into the market with give-away [installations] and not maintaining the quality of service. With telephones it doesn't matter, but alarms are another problem, especially with false alarms," said Mike Hoffecker, president of Compu-Guard Alarm Corp., Anaheim, CA.
- "I don't care how large an alarm company is; a company like Bell will outweigh them as far as how large and how well-known they are," said Evie Rossi, a security consultant with GHT Alarm Systems Inc., Dallas.
- "...The government is allowing another monopoly. Being a utility, they shouldn't be allowed in our business. I feel the money we pay for our phone bill will be used to subsidize our competition. When they start advertising and mass marketing, they're going to be using our dollars to compete with us. I don't think there's anything we can do to stop them. If I had to sum it up in one word, it's *frustration* because we're battling a giant," said Chuck Petrusha, general manager of Advanced Security Systems, Eureka, CA.

While most dealers agree that it's too late to turn back the clock, several offered ideas for keeping the Bell companies in line with the industry:

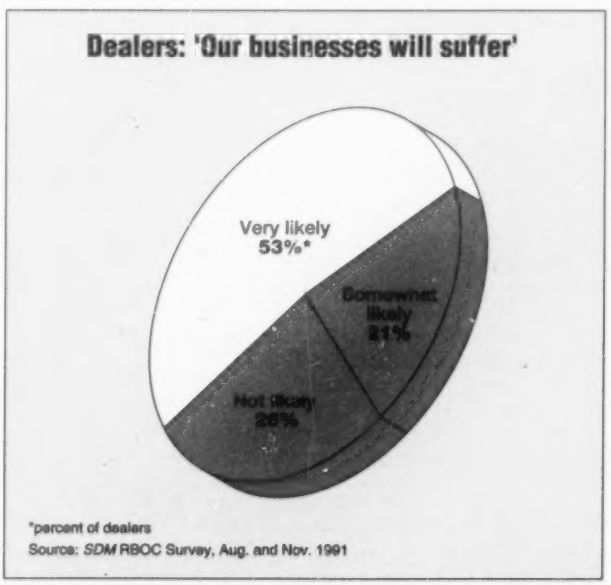
- "I don't mind if [the RBOCs] come into the business if they come into it in a reasonable way—if they are regulated so the rates they charge are the same as everybody else's. We can try to limit [their] damage through public utility commissions so they can't charge $5 a month [for monitoring]. There's not a lot you can do to stop them, but you can...make sure they conform to other businesses in the trade," said Rodney Rickels, vice president of Electronic Detection Services Inc., Homewood, AL.
- "I think a way to defeat [the RBOCs] is to get every municipality to pass alarm ordinances and licensing. Bells hate to deal with rules and regulations on a local level," said Thomas Lemley, president of Able Alarm & Electronic Protection, Louisville, KY, and president of the Kentucky Burglar & Fire Alarm Association.

Every coin has two sides. Some security dealers who participated in *SDM*'s survey foresee benefits to the Bell companies getting into security. Others don't think they will be affected at all.

- "It's a double-edged sword because it


'RBOCs most likely will monitor'
Very likely 40%*
Somewhat likely 47%
Not likely 13%
*percent of dealers
Source: SDM RBOC Survey, Aug. and Nov. 1991

***Almost nine out of 10 security dealers think it's either very or somewhat likely that the RBOCs eventually will offer alarm monitoring.***


Dealers: 'Our businesses will suffer'
Very likely 53%*
Somewhat likely 21%
Not likely 26%
*percent of dealers
Source: SDM RBOC Survey, Aug. and Nov. 1991

***Nearly 75% of dealers said that the RBOCs in the security market would adversely affect dealers' businesses. "They adversely affect my business now," one dealer said.***

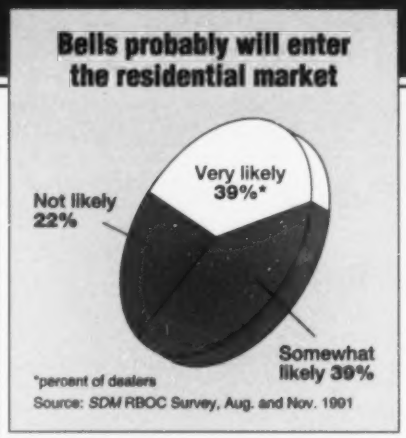
will make more people aware of [security]. Hopefully people will be smart and get two quotes," said Mark Strunsee, president of Centec Security Systems Inc., Milwaukee.

- "The issue is blown out of proportion. Although I wouldn't favor [the RBOCs] investing in the alarm business, I don't think they'll be as successful at it as everyone says they will. They have to prove themselves yet. We really have nothing to contest—it's all speculative," said John Engs, vice president of Fire Security & Control Systems, Colorado Springs, CO.

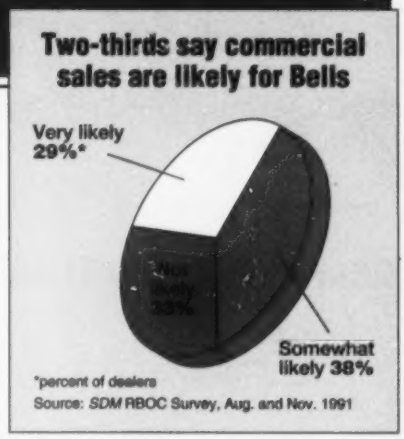
Many survey respondents stressed that excellent customer service will set them apart from the Bell companies in a competitive environment.

- "It's certainly a threat, but I'm a small business and my best foot forward has always been personal service. I've survived some national companies because I give custom service," said Robert Whitfield, president of Electronic Security Systems, Chapel Hill, NC.
- "I have a photo of a sign that used to hang on the Bell company door which listed an out-of-town phone number to call for service. They closed the business office here. Everything is handled over the phone. Their service is atrocious; ours is fantastic. I don't think the Bell companies will be a detriment to our operation, but they must not be taken lightly," said Leigh Johnson, CEO of Custom Communications Inc., Rochester, MN.
- "If the Bell companies are given the opportunity to enter the private sector, they will probably do injustice to the customers just to get increased revenue. We're talking about security for a person's well-being. It takes trained individuals who will spend time getting to know the customer and their needs and giving them special treatment," said Frederick Kerr, president of Kerr Security Alarms Inc., Hot Springs, AR.
- "We have to fight; we have to let people know what's going on. I feel this will impinge a lot of small-business incomes," said Phil Petty, president of Federal Alarm Systems Inc., Decatur, GA.
- "It's a real shame that the country's going to allow this kind of thing to happen. It's going to have to be a grass-roots effort coming from the customer to stop them," said Bill Brewster, owner of AAA Alarm Company, San Jose, CA. **SDM**

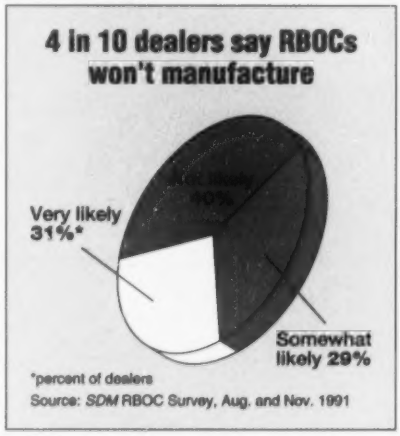
*Editor's note: This article may be photocopied and sent to your legislators along with your own personal written opinion about this issue.*


Bells probably will enter the residential market
Very likely 39%*
Not likely 22%
Somewhat likely 39%
*percent of dealers
Source: SDM RBOC Survey, Aug. and Nov. 1991

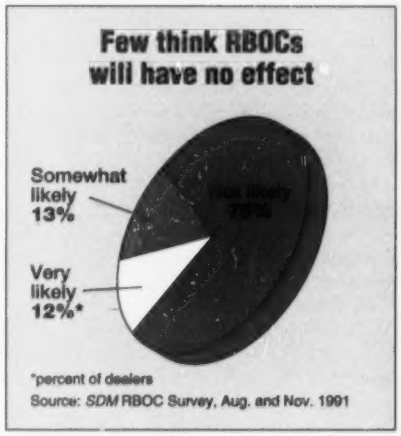
***The residential security market seems to be a likely target for which the Bell companies will aim, according to 78% of the dealers surveyed.***


Two-thirds say commercial sales are likely for Bells
Very likely 29%*
Somewhat likely 38%
*percent of dealers
Source: SDM RBOC Survey, Aug. and Nov. 1991

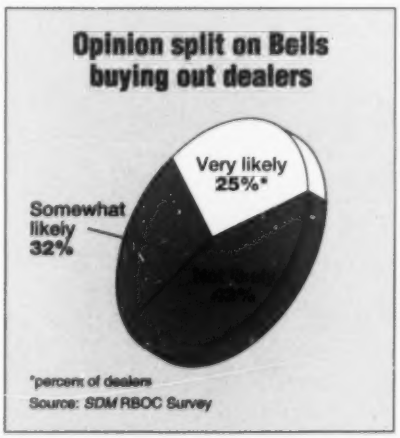
***Dealers think the commercial security market is less likely to be exploited by the Bell companies than the residential market.***


4 in 10 dealers say RBOCs won't manufacture
Very likely 31%*
Somewhat likely 29%
*percent of dealers
Source: SDM RBOC Survey, Aug. and Nov. 1991

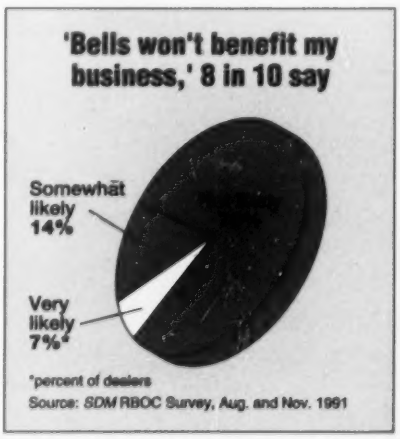
***A significant dealer minority, 40%, thinks the RBOCs will rely on outside suppliers for products, if they enter the security market.***


Few think RBOCs will have no effect
Somewhat likely 13%
Very likely 12%*
*percent of dealers
Source: SDM RBOC Survey, Aug. and Nov. 1991

***Three-quarters of dealers think it's unlikely they won't be affected to some degree if the Bell companies become their competitors.***




***Opinions are split on whether the Bell companies will go after existing alarm companies to get a foothold in the market. A fourth of dealers think that the RBOCs will make some acquisitions.***


'Bells won't benefit my business,' 8 in 10 say
Somewhat likely 14%
Very likely 7%*
*percent of dealers
Source: SDM RBOC Survey, Aug. and Nov. 1991

***Nearly eight in 10 dealers doubt that RBOC presence in the security industry will benefit their businesses, but two in 10 think they could profit from increased consumer awareness.***